

**RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA**

ANNUAL FINANCIAL STATEMENTS

YEARS ENDED AUGUST 31, 2012 AND 2011

RURAL WATER DISTRICT NO. 6,
HUGHES COUNTY, OKLAHOMA
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Independent Auditor's Report

Board of Directors
Rural Water District No. 6,
Hughes County, Oklahoma

We have audited the accompanying financial statements of the Rural Water District No. 6, Hughes County, Oklahoma as of August 31, 2012 and 2011. These financial statements are the responsibility of the District's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statements presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Rural Water District No. 6, Hughes County, Oklahoma, as of August 31, 2012 and 2011, and the changes in net assets and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 16, 2012 on our consideration of Rural Water District No. 6, Hughes County, Oklahoma's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Rural Water District No. 6, Hughes County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
October 16, 2012

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS

Board of Directors
Rural Water District No. 6, Hughes County, Oklahoma

We have audited the financial statements of Rural Water District No. 6, Hughes County, Oklahoma as of and for the year ended August 31, 2012 and have issued our report thereon dated October 16, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and in *Government Auditing Standards*, issued by the Comptroller General of the United States. Rural Water District No. 6, Hughes County, Oklahoma has not presented the Management's Discussion and Analysis that the Governmental Accounting Standards Board requires to supplement, although, not be a part of the basic financial statements.

Internal Control Over Financial Reporting

Management of Rural Water District No. 6, Hughes County, Oklahoma is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Rural Water District No. 6, Hughes County, Oklahoma's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Rural Water District No. 6, Hughes County, Oklahoma's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Rural Water District No. 6, Hughes County, Oklahoma's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or combination of control deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiency described in the accompanying schedule of findings and responses to be a material weakness.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings and responses, we identified a certain deficiency in internal control over financial reporting that we consider to be a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Rural Water District No. 6, Hughes County, Oklahoma's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Rural Water District No. 6, Hughes County, Oklahoma's response to the findings identified in our audit is described in the accompanying schedule of findings and responses. We did not audit the District's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the board of directors, and others within the District, and is not intended to be and should not be used by anyone other than these specified parties.



Kimberlye R. Mayer, CPA, P.C.
Blackwell, Oklahoma
October 16, 2012

RURAL WATER DISTRICT No. 6
HUGHES COUNTY, OKLAHOMA
SCHEDULE OF FINDINGS AND RESPONSES
YEAR ENDED AUGUST 31, 2012

Material Weakness in Internal Control Over Financial Reporting: Inadequate Segregation of Duties:

Criteria: The segregation of duties and responsibilities between different individuals and the reconciliation of those asset accounts is an important control activity needed to adequately protect the entity's assets and ensure accurate financial reporting.

Condition: Presently, the same individual is responsible for water service billings and receiving payments; making and recording deposits; maintaining billing registers; and reconciling the monthly bank statements. Only limited oversight is provided over this individual in the conduct of their daily functions.

Cause: The entity's limited size has made it difficult for management to fully segregate the duties.

Effect or Potential Effect: Without sufficient segregation of duties, the risk significantly increases that errors and/or fraud related to the sales and collection activities, including misappropriation of assets, could occur and not be detected within a timely basis.

Recommendation: The board should evaluate the risks associated with the lack of segregation of duties and consider implementing controls that could mitigate these risks.

Board's Response: The board has concluded that due to the limited number of personnel, an adequate segregation of duties is not achievable and that the cost of correcting the weakness would exceed the benefits that would be derived from it.

FINANCIAL STATEMENTS

AND

NOTES

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
STATEMENT OF NET ASSETS
YEARS ENDED AUGUST 31, 2012 AND 2011

ASSETS

	2012	2011
Current Assets:		
Cash and cash equivalents (Note 2)	\$ 178,153	\$ 149,657
Accounts receivable (Note 5)	50,661	53,964
Prepaid insurance	6,324	8,360
Total Current Assets	235,138	211,981
Restricted Assets:		
Restricted for debt service	56,500	56,500
Other Assets:		
Loan fees (net of accumulated amortization) (Note 6)	17,334	18,140
Reserve certificate	1,000	1,000
Total Other Assets	18,334	19,140
Non-current Assets:		
Property and equipment (net of accumulated depreciation) (Note 3)	2,644,447	2,576,659
Construction in progress		
Total Assets	\$ 2,954,419	\$ 2,864,280

LIABILITIES AND NET ASSETS

Current Liabilities:		
Accounts payable	\$ 16,084	\$ 18,851
Payroll taxes due	2,866	2,166
Restricted deposits and funds	1,953	1,485
Notes payable (current portion) (Note 4)	17,370	20,478
Total Current Liabilities	38,273	42,980
Non-current Liabilities:		
Notes payable, long term	776,710	790,517
Total Liabilities	814,983	833,497
Net Assets:		
Invested in capital assets, net of related debt	1,850,367	1,765,664
Restricted for debt service and other purposes	56,500	56,500
Unrestricted	232,569	208,619
Total Net Assets	2,139,436	2,030,783
Total Liabilities and Net Assets	\$ 2,954,419	\$ 2,864,280

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
STATEMENT OF REVENUES AND EXPENSES AND CHANGES IN NET ASSETS
YEARS ENDED AUGUST 31, 2012 AND 2011

Operating Revenue:	2012	2011
Water service	\$ 402,091	\$ 352,760
Late penalties	9,903	7,565
Meter setting fees	2,000	9,286
Other revenues	2,483	1,971
Total Operating Revenue	<u>416,477</u>	<u>371,582</u>
Operating Expense:		
Wages	92,784	78,151
Payroll taxes	7,354	6,351
Employee benefits	11,643	10,782
Water costs	13,224	14,661
Water test fees	4,865	1,903
Contract labor	24,390	36,044
Fuel and mileage	20,198	16,615
Repairs and maintenance	33,792	29,790
Insurance	12,881	10,324
Director fees	1,375	1,650
Professional fees	22,861	63,253
Office supplies and postage	6,968	4,696
Training	92	92
Utilities	20,556	21,919
Telephone	4,491	3,903
Other expenses	1,771	1,849
Lawsuit judgement		12,753
Depreciation and amortization	102,023	95,117
Total Operating Expense	<u>381,268</u>	<u>409,853</u>
Income (Loss) From Operations	35,209	(38,271)
Non-operating Revenue (Expense):		
Interest income	1,252	888
Benefit units	1,750	4,900
Interest expense	(39,558)	(37,548)
Grants	110,000	110,505
Total Non-operating Revenue (Expense)	<u>73,444</u>	<u>78,745</u>
Change in Net Assets	108,653	40,474
Net Assets, beginning of year	2,030,783	1,990,309
Net Assets, end of year	<u>\$ 2,139,436</u>	<u>\$ 2,030,783</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
STATEMENT OF CASH FLOWS
YEARS ENDED AUGUST 31, 2012 AND 2011

Cash Flows From Operating Activities:	2012	2011
Cash received from customers	\$ 417,297	\$ 369,611
Other operating cash receipts	2,483	1,971
Cash payments to suppliers for goods and services	(186,025)	(247,247)
Cash payments to employees for services	(92,784)	(78,151)
Net cash provided (used) by operating activities	<u>140,971</u>	<u>46,184</u>
Cash flows from non-capital financing activities:		
Cash flows from capital and related financing activities:		
Acquisition and construction of capital assets	(169,005)	(112,777)
Principal paid on notes and loans	(16,914)	(18,924)
Interest paid on notes and loans	(39,558)	(37,548)
System development fees	1,750	4,900
Grants received	110,000	110,505
Net cash provided (used) by financing activities	<u>(113,727)</u>	<u>(53,844)</u>
Cash flows from investing activities:		
Interest on cash and investments	1,252	888
(Increase) decrease in certificates of deposit		51,507
(Increase) decrease in restricted accounts		
Net cash provided (used) by investing activities	<u>1,252</u>	<u>52,395</u>
Net increase (decrease) in cash and cash equivalents	28,496	44,735
Beginning cash and cash equivalents	149,657	104,922
Ending cash and cash equivalents	<u>\$ 178,153</u>	<u>\$ 149,657</u>
Reconciliation of income (loss) from operations to net cash provided (used) by operating activities:		
Income (Loss) from operations	\$ 35,209	\$ (38,271)
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:		
Depreciation and amortization	102,023	95,117
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	3,301	(23,130)
(Increase) decrease in prepaids	2,036	(190)
Increase (decrease) in payables	(1,598)	12,658
Net cash provided (used) by operating activities	<u>\$ 140,971</u>	<u>\$ 46,184</u>

The accompanying report and notes are an integral part of these financial statements.

RURAL WATER DISTRICT NO. 6,
HUGHES COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

Nature of Organization

The Rural Water District No. 6, Hughes County, Oklahoma was created under the provisions of Title 82 of the Oklahoma Statutes, Section 1324.1 – 1324.35 as amended and the laws of the State of Oklahoma. The purpose of this District is to furnish and supply to owners and occupants of property within the corporate limits water, sewer and related facilities and services.

The District is a governed entity administered by an elected Board of Directors that acts as the authoritative and legislative body of the entity.

Basis of Accounting

The accounting policies of Rural Water District No. 6, Hughes County, Oklahoma conform to the basic principles of governmental accounting and financial reporting set forth by the Governmental Accounting Standards Board.

The District is classified as an Enterprise Fund. The costs of providing the water services to the public are financed mainly through user charges. The financial statements of the District have been prepared using the accrual basis of accounting. Their revenues are recognized when they are earned and their expenses are recognized when they are incurred.

Restricted Assets

Restricted assets are cash and cash equivalents, whose use is limited by legal requirements. Restricted cash with fiscal agent represents amounts required by debt covenant to be segregated for debt payments and accrued interest on the notes.

United States Department of Agriculture-Rural Development requires monies to be held in reserve accounts. These reserve funds are to equal the note payments for one year. To be fully funded, these reserve funds must total \$56,412. As of August 31, 2012 and 2011, these reserve funds totaled \$56,500 and \$56,500 respectively.

Net Assets

Net assets present the difference between assets and liabilities in the statement of net assets. Net assets invested in capital assets are reduced by the outstanding balances of any borrowing used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are legal limitations imposed on their use by District legislation or external restrictions by creditors, grantors, laws or regulations of other governments.

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

NOTE 2 – CASH AND CASH EQUIVALENTS:

The District considers all checking, savings accounts and certificates of deposits with a maturity of three months or less (except restricted accounts) to be cash equivalents.

NOTE 3 - PROPERTY AND EQUIPMENT:

Depreciable assets are recorded at cost when purchased or constructed. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's life are not. Depreciation is calculated on a straight-line basis over the estimated useful lives of the depreciable assets. Total depreciation for the year ended August 31, 2012 was \$101,217. The following is a summary by category of changes in property and equipment:

Category	8/31/11	Additions	Deletions	8/31/12
Land	\$ 85,518	\$	\$	\$ 85,518
Vehicles	79,445			79,445
Buildings	62,809	5,500		68,309
Waterline system	3,697,366	152,838		3,850,204
Machinery and equipment	78,762	10,667		89,429
Accumulated depreciation	(1,427,241)	(101,217)		(1,528,458)
Net	<u>\$ 2,576,659</u>	<u>\$ 67,788</u>	<u>\$</u>	<u>\$ 2,644,447</u>

NOTE 4 – NOTES PAYABLE:

The District has entered into four note agreements with USDA-Rural Development for improvements to the water system. Collateral for these notes is all real and personal property of the District. The following is a detail of these notes:

	01	03	05	07
Date of note	11/17/1992	11/17/1992	9/13/1994	4/27/2001
Original amount	\$ 450,000	\$ 66,500	\$ 48,000	\$ 430,000
Maturity date	11/17/1932	11/17/1932	9/13/1934	4/27/1941
Interest rate	5.0%	5.0%	4.5%	4.5%
Payment amount	\$ 2,210	\$ 327	\$ 216	\$ 1,953
Balance at 8/31/10	\$ 351,470	\$ 51,744	\$ 37,946	\$ 388,759
Principle payments	\$ 9,910	\$ 1,481	\$ 977	\$ 6,556
Balance at 8/31/11	\$ 341,560	\$ 50,263	\$ 36,969	\$ 382,203
Principle payments	\$ 8,866	\$ 1,325	\$ 870	\$ 5,854
Balance at 8/31/12	\$ 332,694	\$ 48,938	\$ 36,099	\$ 376,349

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

NOTE 4 – NOTES PAYABLE (Continued):

The following is a summary of the District's future annual debt requirements:

<u>Year Ending</u>	<u>Payments</u>
8/31/13	\$ 56,472
8/31/14	56,472
8/31/15	56,472
8/31/16	56,472
8/31/17	56,472
8/31/18-8/31/22	282,360
8/31/23-8/31/27	282,360
8/31/28-8/31/32	282,360
8/31/33-8/31/37	163,227
8/31/38-8/31/41	<u>52,896</u>
Total payments	\$ 1,345,563
Interest	<u>(551,483)</u>
Balance at 8/31/12	<u><u>\$ 794,080</u></u>

NOTE 5 – ACCOUNTS RECEIVABLE:

The accounts receivable at August 31, 2012 and 2011 consisted of amounts due from customers for water and sewer services

NOTE 6 – AMORTIZATION OF LOAN COSTS:

The loan costs are being amortized over the life of the loan. Total amortization for the year ended August 31, 2012 and 2011 was \$806 and \$806, respectively.

NOTE 7 – INVESTMENTS:

The State of Oklahoma allows government entities to invest in the following: direct obligations of the United State Government, its agencies or instrumentalities; collateralized or insured certificates of deposit; insured savings accounts or savings certificates; or county, municipal or school district direct debt.

RURAL WATER DISTRICT NO. 6
HUGHES COUNTY, OKLAHOMA
NOTES TO FINANCIAL STATEMENTS
YEARS ENDED AUGUST 31, 2012 AND 2011

NOTE 8 – DEPOSITS, INVESTMENTS AND COLLATERAL:

At August 31, 2012 and 2011, all of the District's deposits were covered by Federal Depository Insurance Corporation or secured by collateral held by the District's agent in the District's name.

NOTE 9 – ESTIMATES:

The preparation of financial statements in conformity generally accepted accounting principles requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. Accordingly, actual results could differ from those estimates.

NOTE 10 – RISK MANAGEMENT:

The District is exposed to various risks of losses related to torts; thefts of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The District manages this risk through the purchase of commercial insurance policies. Claims are recognized when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. In determining claims, events that might create claims, but for which none have been reported, are considered. The District has had no claims that exceeded its insurance coverage.

NOTE 11 – CONTINGENCIES:

A lawsuit has been filed against the District by a water customer alleging the District's water rates were not charged in accordance with their Contract for the Sale of Water. The suit seeks damages equal to their alleged overpayment for water in addition to attorney fees and costs. The District is vigorously contesting this lawsuit. During the year ended August 31, 2011, a judgment of \$12,753 had been awarded to the customer and accrued in the financial statements. At the date of this report the court's decision on this lawsuit is being appealed.

NOTE 12 – EVALUATION OF SUBSEQUENT EVENTS:

The District has evaluated subsequent events through October 16, 2012, the date which the financial statements were available to be issued.